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October 20, 2008

## **AGENDA ITEM 7a**

### **TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Selection of High Yield Fixed Income Managers
- II. PROGRAM:** Global Fixed Income
- III. RECOMMENDATION:** Approve the Staff Recommended Managers for Inclusion in the External High Yield Managers Spring-Fed Pool:

#### Non-Investment Grade Bonds

- Artio Global Management, LLC
- JP Morgan Asset Management
- Logan Circle Partners, L.P.
- Putnam Investments, LLC
- RiverSource Institutional Advisors
- Simran Capital Management, LLC (Diversity Firm)

#### Leveraged Loans

- ING Investment Management
- RiverSource Institutional Advisors
- TCW Group Inc.

### **IV. ANALYSIS:**

On December 17, 2007, the Investment Committee approved the issuance of a Request for Proposal (RFP) for the establishment of a "spring-fed pool" of active non-investment grade bond and leveraged loan managers, subject to a formalized annual review process. The managers selected through this process will be added to the current group of external managers that continue to provide portfolio management services under their existing annual review contracts.

Staff made every effort to solicit proposals from a wide range of managers. The RFP was advertised in *Pensions and Investments* and Staff also made efforts to reach out and include emerging firms in the process, for example, by commissioning a search of Altura Capital's emerging manager database. The RFP minimum qualifications were crafted to create a diverse assortment of management styles from which to choose when allocating additional funds to the program. CalPERS received 34 proposals with

only three proposals failing to meet the minimum qualifications. The 31 remaining proposals were read and scored by staff according to the technical proposal criteria listed in the RFP. The scoring categories included:

- Organization and Investment Professionals
- Execution of Strategic Relationship
- Performance and Composite
- Trading
- Investment Process and Research

After the technical proposals were scored, staff reviewed the fee proposals and applied a mathematical formula to assign points.

Fourteen firms were selected for on-site visits as a result of their combined technical and fee evaluations. These firms were divided into non-investment grade bond and leveraged loan categories. CalPERS Staff and Wilshire Associates performed on-site visits from August 11, 2008 to September 11, 2008. Wilshire Associates attended the on-site visits as a non-scoring participant. The on-sites were scored by staff in accordance with the criteria listed in the RFP. The scoring included:

- Organization & People
- Investment Philosophy and Process
- Trading Process and Systems
- Risk Controls
- Client Service
- Strategic Relationship

On-site scores were combined with technical and fee proposal scores to determine the firms to be recommended to the Investment Committee for contract awards. Based on the results of the RFP process, Staff and Wilshire (see Attachment 1) recommend the following six non-investment grade bond managers and three leveraged loan managers to provide portfolio management services:

#### **Non-Investment Grade Bonds**

- Artio Global Management, LLC
- JP Morgan Asset Management
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- Putnam Investments, LLC
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#### **Leveraged Loans**

- ING Investment Management
- RiverSource Institutional Advisors
- TCW Group Inc.

Staff seeks the Investment Committee's approval to award contracts to the above listed managers. Wilshire's conflict disclosure letter is shown in Attachment 2.

**V. STRATEGIC PLAN:**

External Investment manager performance is monitored by staff and reported to the Investment Committee per CalPERS Strategic Plan.

1. Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions and
2. Goal IX: Achieve long-term, sustainable, risk adjusted returns.

**VI. RESULTS/COSTS:**

The allocation to managers hired under this RFP will come from Global Fixed Income assets. The managers will charge a fee for services.

Staff performed this RFP to expand capacity within Global Fixed Income to allocate assets to the non-investment grade markets when market conditions are attractive for increased exposure to this sector.

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Portfolio Manager

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Senior Portfolio Manager

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